



State of Connecticut
HOUSE OF REPRESENTATIVES
STATE CAPITOL
HARTFORD, CONNECTICUT 06106-1591

REPRESENTATIVE MARY M. MUSHINSKY
EIGHTY-FIFTH ASSEMBLY DISTRICT

LEGISLATIVE OFFICE BUILDING
ROOM 4038
HARTFORD, CT 06106-1591
HOME: (203) 269-8378
CAPITOL: (860) 240-8500
TOLL FREE: 1-800-842-1902
E-mail: Mary.Mushinsky@cga.ct.gov

RANKING MEMBER
PROGRAM REVIEW AND INVESTIGATIONS COMMITTEE

MEMBER
ENVIRONMENT COMMITTEE
FINANCE REVENUE AND BONDING COMMITTEE
SELECT COMMITTEE ON CHILDREN

**Testimony in Support of RB 450, An Act Concerning Energy Conservation and
Renewable Energy, and
RB 451, The Establishment of a Heating Furnace and Boiler Replacement Program**

Before the Energy and Technology Committee

Public Hearing March 20, 2012

I commend the Committee on raising far-reaching RB 450, which will improve efficiency, reduce customers' high heating oil bills, promote clean air and energy independence, and speed up the widespread use of electric and hydrogen fueled vehicles. Hopefully you will combine it with RB 451, the Heating Furnace and Replacement Program.

Many of my constituents in Wallingford live in old housing stock, heated by oil. Without an energy audit followed by furnace replacement and plenty of insulation, they face impossibly high energy bills: many are in the \$300-400 per month range for the whole year. These are heating costs for modestly-sized, one family houses. People who never applied for heating assistance in their lives applied this year and in 2011 because their small monthly income cannot keep up. My town had to refill their emergency fuel assistance fund twice because federal fuel assistance was exhausted and oil prices were rising. Oil heated homeowners cannot survive in CT, and CT cannot survive economically if we cannot alleviate residential and business dependence on expensive heating oil.

Section 1 would establish and fund a fuel oil account. While the fund is capped at \$10 million/year, it falls short of the estimated \$17.5 million/year we will need to address the number of dwellings that must become efficient. I hope you will also add the furnace replacement language contained in RB 451 to the list of eligible expenditures in the bill.

Section 4 helps by requiring CT DEEP to examine the cost/benefit of developing programs to convert fuels and increase efficiency of oil use. Sec. 5 has DEEP and DCP identify the barriers to participation by oil dealers in the promotion of efficiency. If oil dealers do not come aboard to help customers become oil-efficient, the DEEP should embark on a major campaign to help customers switch from oil to natural gas and alternative energy. Secs. 6-7 help new home buyers by giving them information they need to choose energy efficiency.

Sec. 21 is outstanding—it is the first time CT would establish a fuel-blind approach to efficiency. I hope the committee can find a way to include customers who live in municipal utility territories; according to OLR's Kevin McCarthy, such customers are currently unable to take advantage of fuel efficiency retrofits (OLR Report attached).

On Saturday, March 17th, my friend Ginny Judson and I took a test drive in an electric car at Schaller Mitsubishi in New Britain. I've also test-driven a hydrogen fuel cell car produced by an innovative Wallingford business, Proton Energy. These test-drives were moments of great joy, tempered by the understanding that we will need infrastructure for these emerging technologies. Sec. 22 changes the building code to support electric vehicle charging. Sec. 23 allows hybrid or alternative fueled vehicles to use the HOV lanes on highways. Sec. 24 sets up a PURA account for the infrastructure to support electric and hydrogen fuel cell powered vehicles. Charging and fueling facilities are the key to expansion of alternative-fueled vehicles in CT, which is a relatively small and compact state and therefore suitable for these technologies.

Sec. 25 exempts these cutting edge vehicles from the sales tax until July 2014. It is appropriate for state tax policy to encourage the transition to clean energy technology. Sec. 27 has DEEP plan for Level III fast charging stations. This is crucial to public acceptance, because the vehicles become feasible if the driver can charge the vehicle in 30 minutes rather than 7 hours (240 volt home charger) or 22 hours (standard 120 volt outlet).

Finally, Sec. 28 will inspire manufacturers through incentives to combine heat and power systems and gain the efficiency that their German colleagues were displaying more than 25 years ago. There is tremendous potential for this combination in the relatively cool and costly Northeast.

RB 451 is a tremendous help toward replacing inefficient furnaces and boilers, and allows the customer to repay the investment through their electric bill with the savings from their more efficient furnace or boiler. It appears to cover only electric companies funded by the systems benefit charge; I hope the committee will find a way to enable customers of municipal utilities to take advantage of this efficiency measure.

Thank you for raising these inspiring bills which will help consumers.



OLR RESEARCH REPORT

January 30, 2012

2012-R-0066

REPLACEMENT HEATING EQUIPMENT PROGRAMS

By: Kevin McCarthy, Principal Analyst

You asked for a description of programs that could help homeowners replace old, inefficient oil heating equipment. You were particularly interested in programs that are open to people served by municipal electric utilities.

SUMMARY

The Connecticut Housing Investment Fund (CHIF) currently operates one such program, which is open to all residents of the state, regardless of what fuel they currently use for heating and whether they are served by an electric company or a municipal electric utility.

PA 11-80 requires the Department of Energy and Environmental Protection (DEEP) to establish two programs, one to provide financial incentives for energy efficient heating equipment and one to provide financing for such equipment. These programs are being developed, but it appears that people served by municipal electric utilities will not be eligible for them unless they are also served by gas companies. PA 11-80 also allows all municipalities to create another program that could help their resident replace their heating equipment, although federal actions have impeded the development of such programs at this time.

Finally, the law requires the Clean Energy Finance and Investment Authority (CEFIA) to establish a loan guarantee program that could be used to help homeowners in all municipalities to replace their heating equipment. While bonding has been authorized for this program, the bonds have not been issued to date and the program is not running at this time.

CHIF PROGRAM

CHIF administers the Energy Conservation Loan Program that provides financing at below market rates to single family property owners to buy and install cost-saving energy conservation improvements. There is also a similar program for owners of multi-family housing.

Owners of one- to four-unit homes can borrow up to \$25,000. The loans can be used for replacement heating equipment using any type of fuel and other energy efficiency investments. The program is available in all parts of the state, including those served by municipal electric utilities. The maximum income a household can have and participate in the program varies by area and by household size. In your area, the limits for a 1-, 2-, and 3-person household are \$113,260, \$129,440, and \$145,620 respectively (there are higher limits for larger households).

The program is small, issuing about 300 loans per year. Further information is available at <http://www.chif.org/page/energy-conservation-loan-program>.

DEEP PROGRAMS

Financial Incentives Program

The act requires DEEP to establish a program providing financial incentives to "eligible entities" that install energy efficient heating oil burners, boilers, and furnaces, and natural gas boilers and furnaces. The entities include (1) any residential, commercial, institutional, or industrial customer of an electric or natural gas company, who employs or installs an eligible savings technology; (2) an energy service company that DEEP certifies as a Connecticut electric efficiency partner (a program that involves electric companies but not municipal electric utilities); or (3) an installer certified by CEFIA.

The financial incentives must provide banks and other financial institutions with loan loss protection or grants to lower borrowing costs. If DEEP considers it necessary, the financial assistance can include grants to a financial institution to (1) lower borrowing costs for program participants and (2) allow for a 10-year loan.

The financial incentive package must ensure that the applicant's annual loan payment is no more than the projected annual energy savings less \$100. DEEP must arrange with an electric or gas company to provide for payment of any loan made as financial assistance through the loan recipient's monthly electric company or gas company bill, as applicable.

Loan applicants must (1) contract with Connecticut-based licensed contractors, installers, or tradesmen; (2) provide evidence of the cost of purchase and installation of the eligible technology; and (3) periodically provide evidence of the operation and functionality of the technology to ensure that it is operating as intended during the term of the loan.

Financing Program

PA 11-80 requires DEEP to establish a program to allow residential customers to finance the installation of energy efficient heating oil or natural gas burners, boilers, and furnaces to replace (1) existing inefficient equipment or (2) electric heating systems. The new equipment must replace boilers and furnaces that are at least seven years old with an efficiency rating of not more than 75%. Replacement fuel oil furnaces and burners must have an efficiency rating of at least 86%. Replacement natural gas boilers must have an annual fuel utilization efficiency rating of at least 90% and a gas furnace must have an annual fuel utilization efficiency rating of at least 95%. To participate in the program, a customer must first have a home energy audit. The cost of the audit can be financed under the program.

A customer who participates in the program must repay the financing as part of his or her monthly gas or electric bill or by other means. The program may be funded by the residential financing program supported by the Connecticut Energy Efficiency Fund or the Clean Energy Fund.

People Served by Municipal Electric Utilities

The two DEEP programs are available to people served by municipal electric utilities who (1) use oil for heating but natural gas for other purposes such as cooking (approximately 15% of gas company customers fall into this category) and install a replacement oil system or (2) convert

an oil system to natural gas. The programs are also available to people who currently have gas or electric heating provided by a gas or electric company.

It appears that the programs are not open to people served by municipal electric utilities who are not served by gas companies. The financial incentives provision requires DEEP to arrange that the loan be paid on the borrower's electric company or gas company bill. The financing provision allows participants to pay the loans on the gas or electric company bills. In both cases, this would not be possible if a person is served by a municipal electric utility and is not served by a gas company. While electric and gas company customers are "eligible entities" for purposes of the financing program, it appears that municipal utility customers are not. However, the act is not explicit on this point.

MUNICIPAL PROGRAM

PA 11-80 allows any municipality to establish a loan program for financing sustainable energy improvements to qualifying real property located in the municipality. These are commonly called Property Assessed Clean Energy (PACE) programs. The municipality must issue a public notice and provide an opportunity for public comment before implementing the program. The program can cover all or part of the municipality.

Under the act, the energy improvements include any renovation or retrofitting of qualifying real property to reduce energy consumption. Qualifying real property are single- or multi-family residential dwellings or other buildings that a municipality determines can benefit from energy improvements. The property owner must agree to participate in the program, which includes signing a contractual assessment.

Notwithstanding other limits or conditions on municipal bond issues, any municipality that establishes a loan program may issue bonds to (1) offer loans to the owners of eligible property in the municipality to finance energy improvements, (2) conduct related energy audits, and (3) verify the installation of any improvements. The bonds and financing must be backed by special contractual assessments on the benefitted property. The municipality can supplement the bonds with other legally available funds at its discretion.

If a qualified property owner requests a loan, the municipality must:

1. require an energy audit on the property before approving a loan;

2. enter into a loan agreement with the owner in a principal amount sufficient to pay the costs of energy improvements and any associated costs the municipality determines will benefit the qualifying property;
3. impose requirements to ensure that the loan is consistent with the program's purpose; and
4. impose requirements and conditions on the loan to ensure timely repayment, including placing a lien on the benefitted property.

Any loan made under the program must be repaid over a term that does not exceed the calculated payback period for the improvements (the time in which the energy cost savings equals the cost of the improvements). The municipality must set a fixed interest rate when each loan is made and the loan cannot have a prepayment penalty.

Loans under the program, interest, and any penalties are a lien against the property. The lien must be levied and collected in the same way as property taxes, including, in a default or delinquency, with respect to any penalties and remedies and lien priorities. However, the lien does not have priority over existing mortgages.

As discussed in OLR Report 2012-R-0027, the federal government has taken steps that impair the implementation of such programs with regard to residential customers. We are not aware of any municipalities in Connecticut that have developed such programs.

CEFIA PROGRAM

PA 10-179 established the Green Connecticut Loan Guaranty Fund Program and required the Connecticut Health and Educational Facilities Authority to administer it. PA 11-80 transferred this responsibility to CEFIA.

CEFIA must use the money in the fund to guarantee loans by participating lending institutions to eligible participants for energy conservation projects. The eligible participants are individuals, nonprofit organizations, and businesses employing up to 50 full-time employees.

Eligible participants can borrow money from a participating lending institution for any energy conservation project for which CEFIA provides guaranties. In connection with a guaranty, (1) the borrower must enter into any loan or other agreement and make such covenants, representations, and indemnities as the lending institution deems

necessary or appropriate and (2) the lending institution must enter into a guaranty agreement with CEFIA under which CEFIA agrees to provide a first loss guaranty of an agreed percentage of the original principal amount of loans for eligible projects.

CEFIA must identify types of projects eligible for the program. These can include buying and installing replacement furnaces and boilers, among other things. CEFIA must establish priorities for financing eligible projects based on need and quality.

While bonding has been authorized for this program, the bonds have not been issued to date and the program is not running at this time.

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